

DRAFT

Procedures Performed

Food and Beverage Operations at the Los Angeles Memorial Coliseum

- On Saturday July 30, 2011 and Saturday September 3, 2011, respectively, SingerLewak ("I" or "we") attended the L.A. Rising concert and the USC vs. Minnesota football game at the Coliseum to observe and assess the controls related to the sale of food and beverage and cash. We understand that the controls related to the sale of food and beverage include the following:
 - o Sales at each concession are based upon the actual cash and credit card receipts during the event. To verify that all sales have been accounted for, inventory is taken at each concession at the beginning of the event and at closing. Any replenishments of inventory during the event are to be recorded and signed off by one of the regional managers on duty. The difference in the opening inventory, including any replenishment, and closing inventory represents the "Potential Sales Amount". The potential sales amount is compared to the actual recorded sales to determine any discrepancy. We understand that many of the concession stands have point-of-sale ("POS") equipment.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

REDACTED

REDACTED

- To obtain an understanding of the procedures related to the sale of food and beverage, we interviewed the following individuals:
 - Ronald Lederkramer, Chief Operating Officer, Assistant General Manager, Director of Finance
 - Hugh Gallagher, Food and Beverage General Manager/Consultant
 - Kyla Hope, Food and Beverage Assistant General Manager
- We initially toured the Coliseum, main storage facility, and [REDACTED] with Ronald Lederkramer, Hugh Gallagher and/or Kyla Hope. Throughout each event, we continually toured the Coliseum, observing the procedures related to the sale of food and beverage and the replenishment of inventory items. We also purchased various items.
- We observed the delivery of cash banks to the various concessions, as well as cash pick-ups during the events.
- For each of the events attended, we reviewed the Daily Stand Inventory and Sales Report ("Daily Report") for each concession, including all supporting documentation. The Daily Report includes columns, by item sold, for each of the following: Actual Count Beginning, Delivery during the Event, Eaten, Spoiled, Out during Event, Ending Inventory Count, and Units Sold. This form is the basis for determining the potential sales amounts.
- For each event attended we reviewed the Event Summary Sales Report by Location.
- Where applicable, we reviewed the POS reports.
- We reviewed the Stand Pick-Up Worksheets indicating the cash pick-ups throughout the event at each stand by each banker/police officer.
- Cash withdrawn for the "tills" and the subsequent deposit of the "tills" was traced to the applicable bank statement. [REDACTED]
- Cash deposits for each event were traced to the applicable bank statement.
- Sales for the L.A. Rising event were agreed to the general ledger. The general ledger reflecting the USC event on September 3, 2011 is not yet available.

- We summarized sales and cost of goods sold for July 2011, per the general ledger.
- We reviewed Subcontractor Agreements for other food and beverage providers.

Procurement, Expense Reimbursements, Other Expenditures

The procedures performed were for the purpose of assessing controls related to procurement, expense reimbursements and other expenditures. In assessing the controls, we reviewed documentation related to various expenditures; however, the procedures did not include examination or review of all expenditures for any particular period of time. The following is a summary of the procedures performed:

- To obtain an understanding of the accounting procedures, we interviewed Gloria Ornelas, Accounting Manager.
- We reviewed the food and beverage, commission and operating general ledgers for 2010 and 2011, and reviewed the supporting documentation for selected disbursements.
- Supporting invoices for purchases from major vendors were selected for review and invoices examined on a test basis.
- Fixed Asset Summaries for 2010 and 2011 were reviewed, including supporting documentation for selected additions.
- Ronald Lederkramer's employment letter and subsequent correspondence were reviewed to determine the benefits he was to receive.
- The Memorandum of Understanding supporting Hugh Gallagher's contract employment was reviewed.
- We reviewed expense reports for the following individuals:
 - Leo Caubillo
 - Maria Delatorre
 - Hugh Gallagher
 - Kyla Hope
 - Robert Joyner
 - Ronald Lederkramer
 - Jonathan Lee

Findings and Observations

Food and Beverage Operations at the Los Angeles Memorial Coliseum

As further detailed below, the findings and observations related to the sales of food and beverage at the Coliseum indicate that the controls in place do not appear adequate to reasonably ensure that all sales are recorded and that all cash is collected by the Coliseum.

- Food and Beverage Sales

- As indicated previously, the reported sales amounts are based upon the actual cash and credit card receipts. This amount is then compared to the potential sales amount, calculated based upon the change in the inventory. The resulting over/short amount was insignificant.
- The potential sales amount based upon the change in inventory does not appear to be an adequate control to ensure that all sales are recorded. The change in inventory does not account for inventory items "eaten", "spoiled" or "out during event". We understand that each employee is entitled to one meal per shift. However, the "eaten" amounts in most cases are significantly greater than one per employee. Further, there appear to be few, if any controls over the "eaten", "spoiled" or "out during event" amounts.
- "Eaten", "spoiled" or "out during event" are excluded from the beginning inventory in calculating the potential sales. Thus, the potential sales are not reflective of the sales based upon the change in inventory. For example, Stand 1 Big Dawg hot dogs had a beginning inventory balance of 270 and an ending inventory balance of 195. The potential sales count was not the difference in the beginning and ending inventory amounts, or 75 hot dogs. The potential sales count was only 34 hot dogs, after reducing beginning inventory for 5 hot dogs "eaten" and 36 hot dogs "spoiled". In this case, the "eaten" and "spoiled" counts were greater than the sales counts.
- The "eaten" and "spoiled" amounts for the USC event on September 3, 2011 represented 12% of the reported sales amounts, with individual concessions "eaten" and "spoiled" amounts ranging as high as 43.9% of the reported sales amounts.

- o During our tour and observation of the Coliseum, I purchased two bottles of water, at \$5 per bottle from Stand 1. The employee appeared to have rung in \$5, another \$5, subtotal \$10; however, after another ring in entry, the final total was \$5. It appears that the \$10 sale was recorded as \$5. There was no receipt provided. We have not yet been provided the detailed POS reports which might provide additional information on voided or "no sale" transactions.
- o Some employees at concessions with POS systems provide receipts to the guest, while others do not. There does not appear to be any policy in place regarding providing a receipt or not providing.
- o As summarized below, the analysis of sales and cost of sales by category for July 2011 further indicate that possibly not all sales are being recorded.

July Sales/ Cost of Goods Sold				
	Sales	COGS	%	
Candy	\$ 3,355.48	\$ 1,887.84	56%	
Coffee	399.37	824.61	206%	
Popcorn	5,525.64	799.41	14%	
Soft Drinks	28,129.19	26,292.27	93%	
Hot Dogs	50,162.40	6,288.40	13%	
Peanuts	7,680.34	(766.80)	-10%	
Pretzels	4,681.37	3,405.89	73%	
Nachos	9,160.77	5,572.87	61%	
Water	25,455.70	8,387.99	33%	
Food Court	45,798.88	12,224.72	27%	
Beer	275,534.76	76,436.69	28%	
Wine	2,687.14	4,781.32	178%	
	\$458,551.04	\$ 146,135.22	32%	

At a sales price of \$9 for a cup of draft beer, the cost percentage should not reasonably be greater than 8% to 10%. The selling price for water is \$5 per bottle; thus the cost percentage should not reasonably be greater than 10%. The selling price for soft drinks is \$5.50 to \$6.50, depending on the size. The cost percentage should not reasonably be greater than 5% to 7%. The cost percentages above are extremely out of line with any reasonable amounts.

REDACTED

- Inventory

- It was our understanding that all inventory deliveries during an event are to be recorded and signed off on by one of the regional managers on duty. Our observations indicated that this does not always occur. Specifically, we observed the delivery of a partial case of wine to Stand 21. The individual who made the delivery did not appear to be management personnel (dressed in shorts, no radio, and no one signed off for the additional inventory received. Subsequent review of the Daily Report for Stand 21 did not reflect any deliveries during the event.
 - The doors to the storage facility remained open during the entire time we were present during both events. Various individuals entered and exited periodically during the entire events. The easy access to the storage facility provides an opportunity for the removal of inventory.
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- Subcontractors

- The Coliseum contracts with various outside providers of food and beverage and receives a percentage of all receipts of the subcontractor. The percentage is generally 40% of all food receipts and 50% of all drink receipts. We were informed that Kyla Hope makes the decision as to the selection of subcontractors.

- o The Coliseum also allows various food trucks at events and receives a flat \$250 from each truck. There are no contracts with the food truck vendors and no system in place to know which trucks will be at a particular event. We were informed that it is simply a matter of which trucks show up for a particular event.
- o We were informed that mid-way through the event the police officers/bankers go by each truck and collect the \$250 due. However, this is not supported by our observations or the supporting documentation. During our tour with Kyla Hope, one of the food truck vendors asked Kyla if she wanted him to go by each of the trucks and collect the cash for her, as he had done before. She said that she did not; that she had police officers to collect the cash. Per review of the Stand Pick-Up Worksheets, there were not pick-ups from truck vendors by the police officers/bankers.
- o Since there is no system in place to know which trucks will be at an event, there is no control to ensure that \$250 is collected from each truck and received by the Coliseum.

Procurement, Expense Reimbursements, Other Expenditures

- Procurement

The procedures performed were for the purpose of assessing controls related to procurement, expense reimbursements and other expenditures. In assessing the controls, we reviewed documentation related to various expenditures; however, the procedures did not include examination or review of all expenditures for any particular period of time.

As further described below, the procedures performed and observations noted indicate that there is a lack of controls and/or inconsistent application of controls related to procurement, expense reimbursements and other expenditures.

- o It has routinely been the policy of the Coliseum to make capital and other expenditures by reimbursing employees, or paying the employee's credit card, for the purchase of various items. This policy does not ensure strong controls for various reasons, including ensuring that the Coliseum and not the employee benefits from any rebates or discounts, difficulty in tracing whether an item has been paid for multiple times, maintaining record of warranty and other records, the appearance of impropriety and other considerations. Such payments include the following:

- \$272,534.78, consisting of five payments, to Ronald Lederkramer's Chase Visa from April 29, 2011 through May 27, 2011. These payments were indicated as being for the purchase of sound equipment from Meyer Sound. A reconciliation of the charges, plus cargo charges also charged to Mr. Lederkramer's Visa, indicated that the total charged to Mr. Lederkramer's Visa was \$267,887.71, resulting in an overpayment of \$4,647.07. This overpayment was repaid by Mr. Lederkramer in two separate checks, one dated May 31, 2011 for \$3,579.74 and another dated July 1, 2011 for \$1,067.33. It is not clear why there would have been an overpayment to the Visa.

The supporting documentation included a Product Quotation from Meyer Sound and a copy of the credit card authorization signed by Ronald Lederkramer. The documentation did not include an invoice or other documentation indicating the total amount actually purchased, nor did it include a copy of Mr. Lederkramer's Visa to determine what amount was actually charged to the Visa. Per review of Meyer Sound website, there are rebates offered on various products. We have not been provided information to determine if any rebate was received and if so, who received the benefit.

There does not appear to be a sound business reason why the purchase of the sound equipment would have been charged to Mr. Lederkramer's Visa as opposed to a check being issued by the Coliseum. Among other things, Meyer Sound would have incurred credit card fees of approximately \$6,500. Presumably a discount may have been available had the payment been made by check instead of credit card.

- Approximately \$10,000 of Gate 1 improvements (see below) were paid to Ronald Lederkramer as reimbursement for amounts he paid directly.
- From January through May 2011, approximately \$28,000 was paid to Leo Caudillo as reimbursement for various capital amounts he paid directly.
- Capital Expenditures do not appear to be pursuant to specific approval and requiring competitive bids. For example, at the March 4, 2009 meeting, the Los Angeles Memorial Coliseum Association approved Capital Projects "to include the new elevator, lights and concession stand...not to exceed 2.5 million". Approximately \$1,700,000 was spent on the elevator and approximately \$400,000 on Gate 1 improvements. From the minutes, we are not able to determine whether the capital expenditures were within the amounts approved and whether the expenditures were subject to competitive bids.

- Expense Reimbursement and Other Expenditures

- Ronald Lederkramer is entitled to reimbursement of medical costs "strictly on a reimbursable basis and limited to \$6,000 per fiscal year." In July 2009, Mr. Lederkramer was reimbursed \$2,000 for a \$1,000 charge by a plastic surgeon. The support included a copy of the doctor's bill for \$1,000, indicating that the amount had been paid by credit card, and also included a copy of the credit card payment. Mr. Lederkramer included both \$1,000 amounts on his request for expense reimbursement, thus doubling the amount.

Mr. Lederkramer receives a \$600 per month car allowance. He also includes various car expenses on his expense report. These expenses include insurance, tires, repairs, etc. It is not clear from his employment letter whether he is entitled to car expenses in addition to his car allowance.

- Hugh Gallagher, in accordance with the Memorandum of Understanding regarding his contract employment with the Coliseum, receives \$10,000 per month, which includes salary, retainer, and payment in lieu of benefits. "An annual bonus will also be paid based on the performance of Hugh Gallagher and the Food Services Net Ordinary Income..." Mr. Gallagher received a \$6,000 bonus in February 2010 for the year ended June 30, 2009. He was also paid an additional \$3,600 in December 2010, indicated as additional labor USC Football Season 2010. Since the Memorandum of Understanding is not specific as to how the bonus is calculated, it is not clear whether the bonus and/or the additional \$3,600 payment were in accordance with the intent of the Coliseum.

Mr. Gallagher is currently being paid an additional \$6,250 related to his services provided pursuant to a management agreement with Hollywood Park.

Recommendations to Strengthen Controls

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- If meals are to be provided for the employees, the meals should be provided in a separate employee break room/cafeteria. Employees should not be allowed to eat from the concession.
- If meals are to be provided for vendors, IT personnel or others, vouchers should be issued and used as payment at the concession. These vouchers should be accounted for in calculating sales at each concession.

REDACTED

- For concessions that have POS equipment, the POS reports should be used as the source for reporting sales and as a control that all sales are recorded. Management should review the POS reports for any "voids" and "no sales". The change in inventory should be used as an additional control and as the primary control for concessions without a POS.
- The change in inventory should be based upon the change in the beginning inventory and ending inventory quantities, and should not be adjusted for "spoiled" or "eaten". The concession manager should be accountable for any spoiled or eaten items. Any amounts that are transferred out during the event should be accompanied by appropriate transfer forms and signed for by management personnel.
- For concessions with POS equipment, position the POS equipment so that the total rung in is visible to the guest. Consider signs, consistent with many fast food operations, indicating that if the total charged does not agree with the register total, call a designated phone number.
- The door to the storage facility should remain closed during all events, with restricted access, such as by key card, etc.
- Enforce the policy that all movement of inventory during an event be supported by and signed off by appropriate management.

[REDACTED]

The selection/approval of subcontractors should be by an individual(s) other than the individual having the daily responsibility for the food and beverage operations of the Coliseum.

- Require a contract with all vending trucks and require that the \$250 or other applicable fee be paid in advance to the Coliseum office. Only trucks that have paid in advance should be allowed into the event.

Procurement, Expense Reimbursements, Other Expenditures

- All capital expenditures should be pursuant to specific approval, indicating the amount approved by specific item and the payment terms, such as 50% deposit, 50% upon delivery.
- Competitive bids should be required for all capital expenditures.

- Payments for capital and other purchases should be made directly to the applicable vendor. The payments should not be made by an employee or charged to the employee's credit card.
- Bonuses should be pursuant to a written plan and the plan should be followed consistently. Annual bonus amounts and the considerations and calculations used in awarding them should be documented in the Minutes.
- Other employee perquisites should be specifically identified in the applicable employee agreement or letter of understanding. The agreement or letter of understanding should be clear as to exactly what type of expenses are reimbursable.

Reservation of Opinions

We were not engaged to and did not conduct an audit of the Coliseum, the objective of which would be the expression of an opinion on the financial condition of the Coliseum. Accordingly, we do not express such an opinion. Had we performed other procedures, other matters might have come to our attention that would have been reported to you.

Our procedures and this report were performed for the purpose of assessing certain internal controls of the Coliseum, not including any controls related to ticket sales. The procedures performed were for the purpose of assessing controls related to food and beverage operations, procurement, expense reimbursements and other expenditures. We did not examine or review all expenditures for any particular time frame. Had we reviewed all expenditures for a particular time period, other potentially inappropriate expenditures might have come to our attention that would have been reported to you.

Certain documents requested were not available at the time these procedures were performed. The general ledger reflecting the September 3rd USC event was not available. The detailed POS reports reflecting each transaction were also not available. Had these documents been available, other matters might have come to our attention or affected our findings and observations.

The sufficiency of the procedures performed is solely the responsibility of the Los Angeles Memorial Coliseum. This report should not be used for any other purpose and should not be used by any individuals or entities other than the Commission.

We appreciate this opportunity to provide these professional services. If you have any questions or need any additional information, please do not hesitate to contact me.